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AUTHOR Schroder, Karster
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ABSTRACT

Rural development, the strengthening of market-oriented approaches to the economy, and the promotion of private industry in the countries of the Third World are among the stated priorities of West German development policy. A market-oriented approach to the economy contributes to a rise in the standard of living in the developing countries. In general, development policy can only provide help for self-help. The development of private initiative in industry is a particularly important form of self-help. The West German government provides not only capital but also technical and business know-how for these efforts. German organizations support the economic advancement of the developing countries by providing help for direct investment, small business promotion projects, and a cooperative bank. Advisory and technical assistance for private industry include partnerships between chambers of handicrafts and private organizations; the Rhine-Main Chamber of Handicrafts support of a training center in Morocco; the contribution of the Carl Duisberg Society; a counseling program for company cooperation between German companies and companies in the developing countries; and advisory activities of the Senior Expert Service program to promote company training. (The report includes a list of names and addresses of German agencies involved in Third World development.) (KC)

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Inter Nationes
Kennedyallee 91 - 103
D - 5300 Bonn 2
Telefon: 02 28 / 88 00
Telex: 17 228 308 ind
Telefax: 88 04 57

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Impetus for Economic Growth and Development

The Federal Republic of Germany Promoting Trade and Industry in the Third World

by

Karsten Schröder

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Translation: Dr Robert Elsie

Introduction

Rural development, the strengthening of market-oriented approaches to the economy and the promotion of private industry in the countries of the Third World are among the stated priorities of German development policy. The Government of the Federal Republic of Germany holds the view that the experience gathered in the course of three decades of development co-operation has shown that a market-oriented approach to the economy contributes to a raising of the standard of living in the developing countries too.

"Structures which promote private business in the fields of handicrafts, industry, commerce and services and in which small and medium-sized businesses can develop, are particularly conducive to development." The statement derives from the 7th Report on the Development Policy of the Government of the Federal Republic of Germany of March 1988. Both government and many private organizations active in development co-operation are working with a view to the realization of this objective.

In general, development policy can only provide help for self-help. The development of private initiative in industry is a particularly important form of self-help, the promotion of which is the right approach to improving the economic and social situation of people in the developing countries. This is all the more true where the present and future development process is successfully anchored and spread among the masses of the population of the developing countries by means of a strengthening of small and medium-sized industry and handicrafts and by support for the so-called informal sector (production and services beyond government supervision and control, such as very small handicraftsmen and street vendors).

For many years now businesses have been set up and promoted with the support of funds, material and personnel, and free enterprise in the developing countries has been strengthened. Characteristic for economic success in many Third World countries

is a strong orientation of their economies in line with the principles of a market economy.

The Government of the Federal Republic of Germany holds the view that good opportunities exist both within the framework of political dialogue and in specific projects and initiatives of bilateral co-operation to promote overall conditions for private initiative and free enterprise for people in the developing countries. Government development assistance cannot, however, suffice to replace the dynamism of the private sector. Private economic co-operation continues to provide an essential contribution to economic and social progress in the developing countries. It provides not only capital but also technical and business know-how.

1. Government and private development co-operation

Objectives, programmes, overall conditions

The Government of the Federal Republic of Germany passed new guidelines for development policy on 19 March 1986 which involve and express a reorientation in development policy. These guidelines stress in particular:

- the integration of development policy within overall co-operation policies with countries of the Third World;

- the function of development assistance as 'help for self-help';

- the willingness on the part of the industrialized countries to help the developing countries to integrate into the world economy and in particular to open markets further for Third World products;

- the willingness on the part of the Third World to strengthen democratic and market economy structures in order to give free rein to creative potential;

- a stronger political dialogue on overall conditions, improved co-ordination of the development assistance provided by all donors and stronger checks on achievements in order to contribute to greater effectiveness.

Within the framework of its development co-operation, the Government of the Federal Republic of Germany attaches particular importance to the promotion of handicrafts and small business, especially in rural areas and small towns. It is important here to create jobs outside of agriculture to provide further income in business and services. Labour-intensive, market-oriented production which saves on the need for foreign exchange should be designed to cover the basic wants of the masses of the population and to prevent further urbanization in centres which are already over-populated. Co-operation between companies in the Federal Republic of Germany and in the developing countries are also being promoted to assist in the setting up of manufacturing and industrial structures in the developing countries. Serving this goal, in particular, is the "Programme for the Promotion of Business Co-operation" devised a few years ago by the Federal Ministry for Economic Co-operation which includes in particular further investment promotion agreements, double-taxation agreements, capital investment guarantees, guarantees and sureties for independent financial loans, promotion by the 'Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungländern' (DEG - the German Financing Company for Investment in the Developing Countries), the 'Deutsche Gesellschaft für Technische Zusammenarbeit' (GTZ - the German Society for Technical Co-operation) and the 'Kreditanstalt für Wiederaufbau' (KfW - the Credit Institute for Reconstruction). The Federal Ministry for Economic Co-operation has been entrusted with the co-ordination of federal government development policy. Its duties focus especially on planning, co-ordination and negotiation of programmes and projects with the developing countries, and in addition, on financing, direction and co-ordination both with non-governmental organizations and with other donor countries and multilateral organizations.

(3)

Forms and instruments of bilateral co-operation

Bilateral development co-operation can be divided into direct, government and non-government forms, the latter involving grants to private organizations. In bilateral government co-operation, the Government of the Federal Republic of Germany provides its contributions to the government in question directly and concludes agreements for such contributions with it. The Federal Ministry for Economic Co-operation usually entrusts organizations and institutions specialized in a particular field of co-operation with developing countries with the implementation of the various projects. In the field of bilateral co-operation, the Ministry distinguishes between Financial and Technical Co-operation. In Financial Co-operation, the developing countries usually receive loans at favourable conditions. Non-repayable financial contributions are available for LDCs. These take the form either of assistance with goods to cover specific import needs for concrete projects and programmes or structural assistance to support structural adjustment in the developing countries.

Technical Co-operation is designed to increase the achievement potential of people and organizations in the developing countries by providing and mobilizing knowledge and skills or improving the prerequisites for the utilization thereof. Technical Co-operation contributions focus primarily on the activities of specialists, project-related basic and further training for the developing countries, supplying of goods and the setting up of plants. In Technical Co-operation, the Federal Ministry for Economic Co-operation can entrust private organizations with the implementation of projects in the developing countries or can provide the developing country in question with a direct grant from a German government agency.

The Federal Republic of Germany is also active in the fields of information and education, research, food aid and ensuring food supplies. The promotion of co-operation between German

industry and the developing countries is an integral part of development co-operation.

2. Government assistance for business co-operation

German industry invests substantial sums of money every year in the developing countries. In 1988, direct investment by German business in the developing countries amounted to DM 408,000,000. Over the last ten years, the developing countries have been the object of an average of 10% of German investment abroad.

Investment by private industry provides not only venture capital, but also, in particular, technical know-how and business experience. This creates new jobs, transmits business know-how and lays the foundations for basic and further training. The developing countries receive capital for the production of goods which would otherwise have to be imported.

In addition to the self-help aspect, strengthening private industry can make another contribution to development: integrating the developing countries as equal partners in the world economy based on the division of labour. Development assistance can be replaced by other forms of co-operation as this integration increases.

The Federal Republic of Germany is relying on impetus from private industry to stimulate economic growth and development in the Third World since the private sector can evolve more dynamically when government provides a favourable political and economic framework. Promotional activities began for the most part between companies in the developing countries and in the Federal Republic of Germany desiring co-operation themselves.

Programme for technology and establishing branch offices

The Federal Ministry for Economic Co-operation supports the investments of small and medium-sized German businesses in the

developing countries by long-term loans at favourable conditions. This 'Programme for Establishing Branch Offices' is especially designed to promote foreign investment by small and medium-sized businesses. It is of particular significance among the development objectives of the Federal Republic of Germany since direct private investment on the part of small and medium-sized industry constitutes the most effective form of business co-operation with the developing countries. In addition to its objective of strengthening the existing financial resources of small and medium-sized industry for investment in the Third World, this programme also serves the interests of German industry itself.

Small and medium-sized businesses in the Federal Republic of Germany which utilize new technology for production in the developing countries in joint ventures receive low-interest loans from the Federal Ministry for Economic Co-operation. This is designed to reduce the risks businesses might incur in introducing technical innovations and to further stimulate the transfer of technology. In 1988, the technology programme was linked to the programme for establishing branch offices and since 1989, the two programmes have had joint promotion guidelines. Implementation has been entrusted to the 'Kreditanstalt für Wiederaufbau' in Frankfurt/Main.

The programme for technology and the establishment of branch offices is designed to reduce deficits in business potential, which can strangle economic development, and accelerate the economic development of the countries of the Third World. The objective of these promotional activities is to reduce the investment risks involved for small and medium-sized businesses and to create incentive for the transfer of technology. Applications for loans must be made via a bank, which must provide liability, and be submitted to the 'Kreditanstalt für Wiederaufbau' which examines both the economic feasability of the project and whether it is worthy of promotion within the framework of development activities. The 'Deutsche Finanzierungsgesellschaft für Beteiligungen in

Entwicklungländern' may also transmit loans within the framework of the programme.

The 'Protrade' Programme for the Promotion of Trade

Foreign trade can be a decisive factor in the development of the countries of the Third World. Exports provide a source of foreign exchange which can be used to finance goods and services for the country's own development programmes. Export articles manufactured in the Third World are accompanied and promoted within the framework of the 'Protrade' Programme for the Promotion of Trade right to the purchaser in the Federal Republic of Germany. In this connection, advisory assistance from product and marketing experts for the countries concerned is just as important as grants for the presentation of products at international trade fairs in Germany and co-operation with trading companies in the Federal Republic of Germany for the development and marketing of new products.

Other government instruments

In order to promote the activities of German companies in the developing countries, the Government of the Federal Republic of Germany has given its support to a further improvement of the legal framework for investment and concluded bilateral 'Investment Promotion Agreements' with 57 countries in the Third World as of January 1989 to protect capital investment. The signatories to the agreements are giving proof of their will to create favourable investment conditions for capital investment in their countries. Such agreements regulate the free transfer of capital and gains from capital investment and the conditions under which expropriation or nationalization are legally authorized.

In addition, there are so-called investment guarantees for the protection of German capital investment in the developing countries. For capital investments worthy of promotion (holdings,

equity loans) in the developing countries, the federal government may cover risks with a guarantee. The volume of guarantees undertaken by the federal government at the end of 1988 amounted to about DM 9,260,000,000 for a total of 2,557 cases.[1] Among other government instruments are the Foreign Investment Law which serves to reduce tax barriers and inequalities for German companies active in foreign investment. With this in mind, the Government of the Federal Republic of Germany has concluded double taxation agreements with a total of 33 developing countries in order to protect German companies abroad from a surfeit of taxation and to avoid international double taxation. Normally, double taxation agreements involve a limitation in the right of taxation of the receiving country and consensus on exemptions from German taxation or the foreign taxes being credited to the level of taxation liability in Germany.

3. German organizations support the economic advancement of the developing countries

Help for direct investment: the DEG

At the beginning of the 1960s, the Traub family from Reichenbach in the south of the Federal Republic of Germany, a Swabian family of entrepreneurs, had promising business contacts in Brazil. The small company specialized in the manufacture of automatic lathes which they had been exporting to Brazil for many years. When, at one point, its market seemed jeopardized due to the strict Brazilian import tariffs, the company decided to set up a manufacturing plant in the South American country itself. Karl-Heinz Steeb who is presently spokesman for the company which was transformed in 1986 into a stock corporation, was entrusted with the task of setting up the 'Traubomatic Industria e Comercio Ltda.' in a suburb of São Paulo. Since the German

[1] The Federal Minister of Economics decides on the approval of applications for capital investment guarantees in the interministerial committee for capital investment guarantees, with the approval of the Federal Minister of Finance and in consultation with the Federal Minister of Foreign Affairs and the Federal Minister for Economic Co-operation.

company was not in a position to finance its Brazilian subsidiary by itself, a partner was sought for the requisite investment. The 'Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungländern' (DEG) agreed to provide support. The investment for the setting up of the plant in São Paulo amounted to about DM 3,500,000. The DEG acquired one third of the new company's capital. This was also the DEG's first investment in Brazil.

Production began one year after the founding of Traubomatic in 1963. Its managing director since its foundation has been Karl-Heinz Meister who is now also a partner in the company.

Following a slow and difficult start, the Brazilian company began to make a profit after four years. Turnovers rose from DM 2,000,000 to DM 56,000,000 at the end of 1986 and present contracts offer a promising future for the company and its ca. 700 employees for the years to come. This promising future can also be seen in the fact that a second assembly plant was opened recently. About DM 25,000,000 has been invested in the Brazilian company up to now. And it has been worthwhile for the German investors. Traubomatic leads the market by far in numerically controlled automatic lathes and sells 95% of its machines on the huge domestic market in Brazil. The remainder is exported to neighbouring countries. Together with two German and four Japanese companies, it now leads the market worldwide.

The DEG, the 'German Financing Company for Investment in the Developing Countries' is the German institute of financing and consulting for direct private investment in the developing countries. It promotes, in particular, the activities of small and medium-sized businesses in the developing countries which are making an important contribution to the setting up and expansion of industry there, especially in the fields of small and medium-sized business, handicrafts and agriculture. Its only shareholder is the Federal Republic of Germany. Its capital stock amounts to a present one thousand million Deutsche Mark. The DEG supports the setting up of industry in the developing countries by co-financing the investment projects of German companies in the

Third World on the basis of genuine partnership together with companies from the developing countries (joint ventures). Within the scope of the DEG's financing are:

- investment in companies to be set up or expanded in the developing countries,

- investment loans to such companies,

- guarantees and sureties,

- refinancing loans and the financing of studies for German companies within the framework of the programme for establishing branch offices for German companies in the developing countries.

The DEG can also be of assistance to its German partners in finding further means of financing via co-financing with about 50 national and regional development banks in the Third World and by its close business contacts with the development banks in Western industrialized countries and other international financing institutes.

Since it began its activities in 1963, the DEG has participated in the foundation of over 300 companies worldwide in almost 80 developing countries. The organizations's activities include not only the finding, examining and financing of investment projects but also on-going support for partner companies and co-operation on supervisory boards.

Although the DEG does accept part of the risk for the projected company in the developing country, entrepreneurial responsibility remains in the hand of the German investor. The DEG is therefore usually the junior partner. It cannot and does not intend to replace the businessmen themselves.

In order to stimulate a willingness among small and medium-sized businesses in Germany to invest in the Third World, the DEG set up a special 'small and medium-sized business programme' in

its 1983 business year involving special conditions. This programme had been utilized for a total of 57 investment projects up to the end of 1986. In the first half of 1986, the DEG supplemented this programme enabling companies from light industry and handicrafts with turnovers of up to DM 10,000,000 annually and up to 50 employees, which were projecting business activities in the developing countries to apply to the DEG to participate in a further financing programme with more extensive preferential conditions. Now, the DEG co-finances the setting up and expansion of companies in the developing countries even without the participation of German companies.

The DEG attained its highest volume in 26 years of work in 1988 with 52 approved agreements (64 in 1987) at a level of DM 161,100,000. About DM 46,300,000 were approved for the acquisition of shares in companies in the developing countries. 71% or a total of DM 114,800,000 went to loans from the federal government's 'Programme for Establishing Branch Offices' and guarantees.

Support in 1988 focussed in particular on the chemical and electronics industry as well as on development banks, hotels nd agriculture (including fisheries).[2]

The DEG is one of the few internationally active financing institutes from the industrialized countries which offers venture capital and long-term loans for private business relationships with the developing countries.

Investments co-financed by the DEG must offer a well-calculated prospect of sufficient profits, for only successful joint ventures serve the economic advancement of the developing countries. In return for the risks it takes with its capital investment, the DEG expects a share in company profits. The DEG functions according to the principles of private industry. Its expenditures must be covered by appropriate returns.

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[2] Statistics of the DEG Business Report 1988, Cologne, p. 42 sq.

The idea of a partnership between a German investor and a local company has been the principle of the DEG's business policies since its foundation. Experience has shown the DEG that joint ventures are best suited to integrating new companies in the national economy of the country in question. The normal prerequisite for DEG co-financing is the participation of a suitable local partner in the financing of the projected company.

With its investment, the DEG covers part of the risk for the company in the developing country. Entrepreneurial responsibility remains with the German investor as the professional partner and with the local partner in the developing country. The DEG is therefore usually the junior partner. It cannot and does not intend to replace the businessmen themselves.

The DEG can only co-finance projects which are profitable from a business point of view and good for development. It therefore endeavours to establish relationships with companies with sufficient professional experience and capital resources and which have proven themselves successful on the market. For its professional partners it chooses German companies wishing to pursue the same production activities in a developing country as in the Federal Republic of Germany or a line of production adapted to the needs of the country in question. Experience has shown the DEG that the success of a projected company depends substantially on the professional partner's ability to:

- acquire a substantial share of the capital resources of the projected company,

- provide the projected company with entrepreneurial know-how for product quality, marketing and distribution,

- make available proven technology and ensure the competitiveness of the projected company by constant modernization of manufacturing processes,

- make available to the company in the developing country qualified technical and commercial management and provide requisite training,

- dispose of requisite planning and control to prepare for, realize and supervise business activities in a developing country,

- have at its disposal sufficient funds for subsequent financing should this be necessary.

The DEG can invest in all developing countries, including the countries of southern Europe: Greece, Spain and Portugal.

One condition for DEG co-financing is a favourable climate for investment in the country concerned. The following factors must be guaranteed on a long-term basis:

- private company management,

- sufficient protection for the invested foreign capital,

- transfer of profits and capital.

Investments which are co-financed by the DEG should promote the economic development of the country in question, e.g. by

- transferring business and technical knowledge,

- creating lasting jobs,

- staff training,

- reducing foreign exchange needs by replacing imports,

- raising foreign exchange input by increasing export production,

- processing natural resources locally.

The DEG can invest in all spheres of the private sector. There are no spheres of priority.

The DEG does, however, try to ensure that the risks in its investments are spread over a great number of branches of industry. It also attaches importance to a balanced structure in the size of the businesses it co-finances. It promotes medium-sized joint ventures in particular.

The DEG and the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) are responsible for the German government's programme for the promotion of business co-operation with companies in the developing countries (see chapter 4). DEG investment consultants are sent to the developing countries under this programme to ascertain possiblities for direct investment and other forms of industrial co-operation in the country itself and to assist investors in the preparation, examination and realization of their projects.

Small Business Promotion Projects - the GTZ

A six week training course prepared by the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) can mean the setting up of a small business in Nepal. After an initial examination of candidates who must have a basic knowledge of reading, writing and arithmetic, participants are divided into small groups (15 to 25 persons). The idea behind the Small Business Promotion Project is multi-phased training. The first few weeks of the course consist to a large extent of group dynamic games as deemed optimal from the practical experience of European and American business consultants. Course experience shows that the talents of many participants which would otherwise go undiscovered come to the fore during such group dynamic activities. During this initial motivation phase, participants in the course are confronted with themselves and later with the principles of company management. They are encouraged to surpass their own limits and calculate possible risks. In the following

phase of brainstorming, participants develop business ideas. Here they are to prepare their own ideas about products and projects. Thereafter, the various proposals made are discussed with the trainer who sets forth the major aspects of founding small businesses and provides assistance in the project studies to be implemented. Then, the official training programme is interrupted for two weeks to give the participants time to gather concrete business and market data, as well as information on sources of raw materials and possible opportunities for marketing. The final training hurdle is the presentation of a project proposal with a detailed plan for bank financing. If the participants succeed in this, their financing plan is then officially approved by the bank at the end of the six week course. Since the start of these courses in 1983, about 80% of the participants have received such bank certificates. A bank certificate does not, however, mean the immediate setting up of one's own business. The realization of such a project can take several months, often a whole year. 150 participants (from 1985 to the end of 1986), or 50% - 60% of beginners, founded businesses in Nepal. In addition, about 50 trainers have been trained themselves to give such courses and been seconded to Nepal by various development organizations to multiply the project goals in their own projects.

One noticeable feature of this Small Business Promotion Project, as the GTZ has stressed, is the high proportion of successful female participants. Only five of the businesses have closed down up to now.[3]

Objectives of German development policy are the improvement of the economic and social situation of people in the developing countries and the promotion of their creative talents. The task of implementing these development goals in practical co-operation with partners in the countries of the Third World has been entrusted to the Deutsche Gesellschaft für Technische Zusammenarbeit GmbH. (GTZ) in Eschborn. This federal non-profit

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[3] Alexander Frenz, "Förderung von Existenzgründungen im städtischen informellen Sektor. Eine Projektkonzeption dargestellt an einem Projektbeispiel in Nepal", in: Zeitschrift für Wirtschaftsgeographie, Jg. 32 (1988), Heft 2, pp. 158-162.

organization (with capital resources of DM 40,000,000), founded for this purpose, works in particular for the Government of the Federal Republic of Germany in the field of government Technical Co-operation.

The GTZ thus contributes to the fight against poverty in the developing countries with a total of over 2,000 projects in over one hundred countries of Africa, Asia, Latin America, the South Pacific and Europe. The main regional focus of its activities is Africa and the main sectorial focus is rural development which also serves to improve food supplies for people in the Third World. Resources from both the private and public sectors are to be mobilized under the motto 'help for self-help'.

The GTZ holds the view that the promotion of industry must take a new approach. "Most of the developing countries have recognized or learned from bitter experience that the principle of market economy and incentives for private industry are more effective for economic development than the experiments of a state planned economy," declared GTZ Managing Director Gerold Dieke. "Markets and competition are essential for the achievement potential of developing countries, in particular for their ability to compéte internationally. It can be shown empirically that the developing countries with market-oriented economies are more successful in their economic development."[4]

Small business promotion projects are therefore of increasing importance in the promotion of industry. An economy predominated by small and medium-sized businesses offers the best social and economic opportunities for a balanced development. The Government of the Federal Republic of Germany thus offers strong support in the countries of the Third World for handicrafts and for small and medium-sized businesses. Last year, the GTZ worked out a detailed framework for the promotion of this sector, which is to serve as a theoretical basis for project activities, in particular in the countries south of the Sahara and with

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[4] Gerold Dieke, "Marktwirtschaftlich orientierte Entwicklungsländer sind erfolgreicher", in: GTZ-Presseinformation Nr. 3/1988. 19 April 1988. p. 2.

particular stress on rural development. These principles, when modified, can be applied to other developing countries too. The overall development policy objectives involved are:

- supplying the rural population with simply consumer goods and services and supplying the farmers with the means of production to increase agricultural production,

- creating jobs and income in rural areas. This can take place in the form of support for existing companies, structural change based on new needs and resources, raising existing production, and the founding of new companies.

Such programmes are designed and suitable for:

- small and medium-sized private companies which are 100% owned by the inhabitants (including co-operatives) of the country in question,

- traditional and modern handicrafts, including handicraft repairs and small industry with no restriction as to the branch of industry involved,

- companies primarily in towns and villages in the countryside, and only in exceptional cases in the capital or in major cities.

The GTZ holds the view, in agreement with the development objectives of the Federal Republic of Germany, that change in overall economic and industrial conditions in many Third World countries constitutes an important prerequisite for the effectiveness of projects to stimulate private initiative. The re-orientation needed can for instance cover the re-organization of government investment policies, the legal regulation of private investment, education and vocational training policies, customs and import policies, exchange rate policies, wage and price policies, finance, credit and savings policies, and subsidy policies.

Further measures of support are needed in addition to this framework in order to promote free enterprise in the economy. One important contribution to the growth of companies is an improvement in the craftsmanship and technical skills of the work force and entrepreneurs by means of basic and further training. Also of significance for entrepreneurs is a strengthening of their commercial and management know-how.

Important for increasing productivity is the application of appropriate technologies adapted to local resources and the promotion of local technology. In addition to the creation of appropriate overall conditions, in particular by eliminating advantages held by imported technologies and large companies, it is essential for instance to transfer information and know-how about technological developments devised and applied in other developing countries, to manufacture and introduce prototypes of appropriate technology, to provide advisory assistance, both via advisory services and colleges and vocational training institutes in adapting machinery and equipment and in the utilization of proper tools etc.

Also of particular significance are company input (for example improving supply structure by eliminating government quota and pricing regulations and promoting equality of treatment for small companies in the awarding of import licences and the distribution of foreign exchange), a corresponding infrastructure and loans available to smaller companies.

An improvement in the position of small companies can also be attained by eliminating unfair competition in the form of subsidies to large corporations, the awarding of government subcontracts to small businesses, the promotion of marketing co-operatives and the creation of financial incentives for established merchants to market the products of small companies.[5]

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[5] "Entwicklung des ländlichen Raumes. Mehr Chancen für Handwerk und Kleinindustrie", in: GTZ-Presseinformation, 14/1988. 23 August 1988, pp. 2-5.

Instruments for the promotion of handicrafts and manufacturing encompass the following four major elements:

- the establishment and improvement of efficient promotional structures with the potential for self-help in mind,

- location and advanced training of businessmen and experts,

- counselling and services for companies,

- creation and promotion of the requisite economic framework.[6]

According to the 1988 GTZ annual report, the Small Business Promotion Project tested in Nepal is to be modified for other fields and tested in other countries:

- "Graduates from vocational colleges: in Thailand, courses in the setting up of small businesses have been held for graduates of technical vocational colleges. The teaching material has been modified in accordance with experience attained there. This type of project has proven highly successful.

- Rural entrepreneurs (primarily women): in Malawi, courses in the setting up of small businesses were held as a supplementary feature of the Rural Growth Center project underway there. They too required substantial modification in teaching materials. The programme is promising though further work with course graduates within the present project in indispensible.

- Product innovation: beyond the programme for the setting up of businesses itself are approaches to promote innovative thinking among existing small businesses by means of group training. The plan, based on the same principle as the projects for the setting up of businesses, was implemented

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[6] Bernd Förster, "Selbsthilfe bei der Handwerksförderung", in: GTZ (ed.): Handwerk, Industrie und Kreditwesen. Schwerpunkte und laufende Projekte, Eschborn 1984, pp. 45-50.

successfully in Cebu on the Philippines. Many of the participating small businessmen have substantially expanded their range of products."[7]

A co-operation bank - the KfW

The promotion of rural development and, in particular, the setting up of independent small businesses are also finding their way increasingly into many projects of the 'Kreditanstalt für Wiederaufbau' (KfW). In order to impede urbanization, it is essential to create jobs for the rural population. In this context, the promotion of small businesses is of great significance. In Malawi, the Small Enterprise Development Organization of Malawi (SEDOM) was founded to this end in 1982 to provide funding for the setting up and expansion of small businesses and trades, in addition to the variety of advisory sevices it provides. The KfW laid a solid foundation for the work of SEDOM by means of financial loans and is supporting current projects (for the period 1988 to 1991) with DM 8,500,000.

The interim result of this project has proven positive already. Since SEDOM's foundation, over 3,000 small businessmen have been promoted by means of loans and advisory assistance. 30% of the recipients of loans were women in various small trades. These businesswomen are not only providing family income. Their activities are giving new impetus to rural economic development. The women supported by SEDOM are not only endeavouring to set up independent businesses in traditional professions such as tailoring, food processing and launderies. Some of them have penetrated branches of the economy which had previously been in the exclusive hands of men. Women have for instance been making a living in carpentry, building material manufacturing and animal husbandry. These initial positive results are encouraging SEDOM to increase its activities for women and to motivate them via counselling and funding to set up small businesses. The SEDOM project staff hope that over the years in the long run a group of

[7] GTZ, Jahresbericht 1988, Eschborn 1989, p. 32.

female entrepreneurs will come to the fore, willing to risk founding a company outside the field of agriculture.

The Kreditanstalt für Wiederaufbau in Frankfurt/Main, functioning as a development bank of the Federal Republic of Germany has been legally empowered for 25 years now to make loans and grants to developing countries. The loans and grants serve to finance investment projects to improve the economic and social infrastructure as well as projects in trade and agriculture. Small and medium-sized investment projects in trade and agriculture are financed by the KfW via local development banks from Financial Co-operation funds.

The KfW is also entrusted with the implementation of the so-called Programme for Technology and Establishing Branch Offices which is especially designed to promote foreign investment, capital goods and modern technology for small and medium-sized businesses in the developing countries. The loans from this programme can be used both for partial financing of concrete investment projects (investment promotion) and of preparatory analyses on the prerequisites of such projects (financing of studies).

Investment financing comprises the setting up, expansion and acquisition of businesses in the developing countries. The projects must, however, be suited to promoting the economic development of the country in question. The programme for establishing branch offices offering loans up to a level of DM 2,500,000 makes it easier or indeed possible at all for small and medium-sized businesses to invest in developing countries. According to information from the borrowers, about 33,949 new jobs have been created in the developing countries by means of the projects promoted up to now. The level of training of employees has continued to rise, too.

Between 1979 when the programme by the Federal Ministry for Economic Co-operation for the promotion of German business establishments in the developing countries took effect, and the end of 1988, a total of 710 loans with a volume of DM 658,500,000

were applied for and 502 loans with a total volume of DM 360,200,000 were approved.

To finance these activities, the Government of the Federal Republic of Germany makes delivery credits available to German exporters and purchaser credits available to foreign importers in the developing countries at favourable conditions from the special funds of the European Recovery Programme, reinforced by funds from the capital market.

Within the framework of Financial Co-operation, the KfW has approved loans and grants to the developing countries from federal funding amounting to DM 2,900,000,00 in 1988 (DM 2,700,000,000 in 1987). Asia received the largest proportion with DM 1,300,000,000, followed by Africa with DM 1,200,000,000 and Latin America with DM 200,000,000. The number of new loan and grant approvals rose even faster than the volume of financing in 1988. It rose by 22% from 185 to 227, in particular due to the large increase in smaller projects in Africa.

Leading the branches of industry benefitting from such funds is the energy sector with 21% of project-related loan and grant approvals, followed by manufacturing with 14% (DM 343,000,000), agriculture with 13% (DM 308,000,000), transport and communication, and social infrastructure with 13% each.

Among the many projects in the energy field are funds for the maintenance of a power station in the Philippines, electricity supply in Vilamontes-Yacuiba in Bolivia, renovation of the steam-power plant in Maputo (Mozambique) and electrification activities in the Karima-Merowe region of the Sudan. Loans and grants were approved in the manufacturing sector for instance for a fish farm in Bangladesh and in agriculture for a grain storage programme in Zimbabwe and to fund rural drinking supplies in Sierra Leone.

4. Advisory and technical assistance for private industry

Partnerships between chambers of handicrafts and private organizations

The promotion of handicrafts and small business, in particular in rural areas and small urban centres has not only been a major focus of government development co-operation for many years now. German private industry is also active in this sector with many different programmes. About 60% of all chambers of handicrafts are active in the development field both in the Federal Republic of Germany and in many developing countries. Of the 42 chambers of handicrafts, 17 are directly involved in commercial vocational training projects for the developing countries. Most of these activities enjoy close co-operation with the Carl Duisberg Gesellschaft (CDG - Carl Duisberg Society) in Cologne, the Zentralstelle für Arbeitsvermittlung (ZAV - Central Employment Agency), part of the Federal Office for Employment in Frankfurt/Main, the Otto-Benecke-Stiftung (Otto Benecke Foundation) in Bonn, the Zentralstelle für Gewerbliche Berufsförderung (ZGB - Central Agency for Commercial Vocational Training) in Mannheim, the Deutsche Stiftung für Internationale Entwicklung (DSE - German Foundation for International Development) in Berlin (West), the GTZ and church organizations. There are no central statistics for the moment, but the Zentralverband des Deutschen Handwerks (Federation of German Handicrafts) deduced from questionnaires that up to the end of 1987, for example, over 4,000 experts and managers from the Third World had been given basic and further training in vocational training centres operated by German chambers of handicrafts. There are now about 400 individuals graduating annually from technical, economic and teaching courses who will serve to multiply these functions in their countries of origin.

Vocational training programmes are now being carried out with the participation of 14 chambers in the Federal Republic of Germany. Commercial training projects are soon to be carried out by three chambers of handicrafts in the developing countries. Also serving the promotion of commercial vocational training are

the projects 'For the Development of Structures Conducive to Handicrafts' now carried out abroad by 11 chambers of handicrafts. Experts and managers from the following countries of the Third World have been given basic and further training at vocational training centres operated by German chambers of handicrafts: Algeria, Angola, Burkina Faso, Myanmar (Burma), Burundi, Ethiopia, Indonesia, Kenya, Korea, Morocco, Namibia, Niger, Pakistan, People's Republic of China, Rwanda, Saudi Arabia, Somalia, Sudan, Thailand, Togo, Tunisia, Turkey and Zimbabwe.

German handicrafts are also active in the setting up and development of handicrafts and small businesses by sending experts to help in planning and counselling for equipment and machinery. In many cases, the chambers of handicrafts also assist in the provision of loans. Small businesses in the developing countries make contact with the chambers of handicrafts via basic and further training contacts, local vocational training centres, joint ventures, connections with private agencies or official government contracts.

German chambers of handicrafts also particpate in the setting up of Third World organizations to promote handicrafts. In this field they support private self-help organizations such as chamber of handicrafts, co-operatives for loans and goods, with priorities varying in accordance with the needs and wants of the developing country in question. The most important activity of these self-help organizations is considered to be the basic and further training of young handicraftsmen and private businessmen.

A practical example can serve to illustrate the development co-operation promoted by German handicrafts:

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The Rhine-Main Chamber of Handicrafts supports a training centre in Morocco

The Rhine-Main Chamber of Handicrafts is one of the German chambers of handicrafts which takes part in the partnership programme of the Federal Ministry for Economic Co-operation which sponsors a project in Morocco. When the Moroccan Government requested assistance from the Federal Republic of Germany in the promotion of local handicrafts at the end of 1984, the Rhine-Main Chamber of Handicrafts with headquarters in Frankfurt/Main offered to be of help. After thorough preparation, a partnership agreement was signed in November 1987 between the the Rhine-Main and the Fez Chambers of Handicrafts. Co-operation with the Moroccan side involves assistance from the German chamber of handicrafts in the setting up of a chamber of handicrafts for about 205 trades in the North Central Region and of a vocational training centre. The Federal Ministry for Economic Co-operation, represented by the GTZ, made DM 6,600,000 available for this project and the Chamber of Handicrafts in Frankfurt provided the furnishing and equipment for the workshop. The 'Centre de Perfectionnement des Artisans' (CPA) was set up on the outskirts of Fez for young Moroccan handicraftsmen with some professional experience. It offers advanced training for 70 people in four sectors: woodwork, metalwork, automechanics and welding, the training being conducted under the direction of three GTZ experts and a few German handicrafts experts present for one month at a time. About 160 Moroccans took advantage of the training offered by the centre last year, and 50 in the first few months of this year. The teaching by three Moroccan trainers is conducted in Arabic, but German is spoken with the German advisors since all three Moroccans worked in handicrafts in the Federal Republic of Germany. The length of the courses varies, most of them ending in one week, though some last for two to three months. Each participant who completes the course successfully receives a diploma. Such diplomas are much sought after because of the signature of the German chamber and later hung on the walls of the recipients' own workshops.

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Ralph Drebes, an economics engineer who is project head of the training centre in Fez is also responsible for institutional counselling for the Fez Chamber of Handicrafts. Together with this chamber, this German advisor is currently enumerating and registering handicraft businesses in this area in order to propose further steps in the improvement of the chamber's organizational activities. Due to the activities of the German chamber of handicrafts, the chamber in Fez has, for the first time, received more funding for its work from the Moroccan Ministry of Labour and Social Affairs.[8]

The contribution of the Carl Duisberg Society

The Carl Duisberg Society is a non-profit organization for advanced international vocational training and staff development. It is supported by its members, about one thousand businesses, organizations and individuals in industry. Industry provides an annual free contribution amounting to about twenty million Marks to the Carl Duisberg Society's work, mostly in the form of apprenticeships. The government devotes almost one hundred million Marks annually to cover the costs of programmes, material and personnel.

Many advanced vocational training programmes of the Carl Duisberg Society are modelled not only to interested parties in the Federal Republic of Germany, but also to experts and managers in the developing countries. These programmes, as an integral part of German development policy, are usually organized on behalf of the Federal Ministry for Economic Co-operation and of the German Laender. They serve to support the countries of the Third World in their economic and social development and to promote co-operation between them and the Federal Republic of Germany. The programme activities for 1988 were characterized by newly developed and refined programmes designed to help overcome certain deficits in know-how in the various developing countries

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[8] "Auch der König sorgt sich ums Handwerk", in: Handwerk Magazin, Heft 6/1989, p.81-91.

by means of specific long-term further training. The total number of participants in the field of development co-operation rose slightly from 4,255 to 4,303 this year. An analysis of the regions of origin of participants in this further training shows that the proportion of participants from Asia rose to 47% (2,048 persons) whereas 33% (1,435 persons) were from Africa and 17% (721 persons) were from Latin America. There was more direct co-operation with the institutions of private industry in Latin America. In Africa, most of the guests came from Egypt, Tanzania, Tunisia, Kenya and Zaire. According to countries, most participants came from the People's Republic of China, followed by Thailand, Indonesia and El Salvador.

As their 1988 annual report shows, the Carl Duisberg Society is also active in the sector of "Business Promotion in the Developing Countries":

- The focal point of activities of a joint project of the Carl Duisberg Society and the Aachen Chamber of Handicrafts for business promotion in El Salvador last year was the expansion of the local staff basis for future project. Four long-term programmes began for twelve business consultants and forty-six technical experts (trainers, engineers and technicians in metalwork and automechanics). The trained experts are to be made available to the project in El Salvador this year on a full and part-time basis as young businessmen, trainers and consultants.

- A pilot project to promote small industry, created and tested for the Thai Ministry of Industry, has now become an integral part of regional development programmes in the country's provinces. A 'manual of promotion' in Thai and programmes to educate trainers as well as a course in 'starting your own business' were devised.

- In the project 'Further training system for managers in manufacturing' in the countries of the Andes region, the 'multipliers' trained in 1982 and 1984 by the Carl Duisberg Society have in turn trained 1000 other managers in

manufacturing. A further objective of the project is now to extend the project to include the food and textile industries. The system is also being introduced in Chile and Mexico.

- A new project in the field of export promotion for Southeast Asia began in 1988. Smaller Indonesian and Filipino companies in the food and furniture sectors are receiving know-how support to endow the companies with qualifications in the preparation of marketing and export strategies. Particular attention is paid to markets in the Federal Republic of Germany. Participating companies were selected initially in workshops in Jakarta and Manila. In 1989, a 15 month training programme began in Germany for junior marketing managers. In addition to professional seminars and practical training, participants have the opportunity during the several months of duration of project activities to introduce their products, develop an appropriate strategy and find partners.[9]

Counselling programme for company co-operation between German companies and companies in the developing countries

In coordination with the high-level federations of German industry, the Federal Ministry for Economic Co-operation created a programme to promote long-term company co-operation between German companies and those in the developing countries and has expanded on the programme constantly in the last few years. This so-called company co-operation programme is especially designed for small and medium-sized companies. It provides companies with counselling on:

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[9] Carl Duisberg Gesellschaft: Geschäftsbericht 1988, Cologne 1989, p. 8 sq.

- the strengthening of commercial contacts with a view to increasing exports from the developing countries to the Federal Republic of Germany and the other countries of the European Community,

- transfer of technology including the conclusion of licencing agreements,

- foreign investment, in particular the setting up of joint ventures.

So-called co-operation consultants are at work in a number of countries and regions within the framework of this programme. These practical-minded business consultants who have contact agencies in the Federal Republic of Germany support small and medium-sized companies in their search for foreign partners for co-operation projects. Among their free counselling services for example are advice on company location, choosing and contacting partners, evaluating the economic feasability of co-operation agreements, advice on the form of co-operation agreements. Both the GTZ, the DEG and consulting firms are active in the implementation of the project. Advisory activities normally end with the conclusion of an agreement between the partners. At present, about 25 consultants are active in Africa, Asia and Latin America. They are also at the disposition of self-help organizations in industry and government agencies for the promotion of industry in the countries in question.

Experience with the working elements of the company co-operation programme has shown the Federal Ministry for Economic Co-operation recently that "only very few developing countries around the world, primarily threshold countries, are suited for this narrowly defined type of company co-operation programme," which has necessitated a practical expansion of planning towards an integrated advisory service for private industry in the developing countries. Integrated advisory service projects can make available pragmatic counselling to promote private industry in the developing countries at the government, intermediate service and company levels. In addition, application can be found

for other instruments of German development policy to promote private industry.

Advisory activities of the Senior Expert Service

Professionally highly qualified retired people from industry, trade and handicrafts are providing short-term personal assistance on a volunatry basis for the economic advancement of the countries in the Third World. The Senior Expert Service (SES), founded in 1983 and financed by the Federal Ministry for Economic Co-operation, has been supported since 1986 jointly by the Federation of German Industry, the German Chamber of Industry and Commerce and the Carl Duisberg Society as a non-profit organization. About 2,000 retired experts in all fields have registered with the SES for assignments abroad. The SES offers professional advice to small and medium-sized companies in particular to solve acute problems in the fields of production, maintenance, repair and management. Among these experts in retirement are specialists in all fields, for example for steel, wood and textile manufacturing, packaging and motor production. These consultants have not only special qualifications but also a knowledge of foreign languages, experience abroad and good health. The legal basis of such assignments limited to a maximum of six months are a consultancy contract between the client and the SES and a secondment contract between the SES and the consultant. The costs which arise from such assignments are met by the client, although in some cases, in particular for companies in countries lacking foreign exchange, the Federal Ministry for Economic Co-operation meets a portion of the assignment costs as well as costs for flight and administration.

Since the foundation of this expert service, over 600 assignments in 76 developing countries have been carried out. In 1988 alone, there were 142 assignments, an increase of 17% over the previous year. Some pensioners were abroad several times.

Programmes to promote company training

Since 1965 and more extensively since 1980, the Federal Republic of Germany has been promoting company training for companies in the developing countries. The goal of this programme is to improve company training on a systematic basis in line with the dual training system successfully practised in Germany (theoretical training in vocational colleges and parallel practical training on the job). Classical apprenticeship activities are promoted as well as short-term and graduated company training. German companies may apply, as may companies and agencies running training centres in the Third World. In 1988 alone, training was financed for 2,229 apprentices in 68 training centres operated by German companies in 19 countries of the Third World with grants amounting to between DM 100 and DM 400 monthly. Training courses cover subjects as varied as one-year training in clothes making to four-year courses for experts in industrial electronics.

German companies are making a substantial private contribution both within the framework of training assistance for the Third World financed by the Federal Republic of Germany and as a supplement to such assistance. According to the Federal Office for Employment in Frankfurt/Main, 4,832 apprentices from the developing countries were given training at German companies in Germany in 1988. These apprentices were recipients of scholarships from the Government of the Federal Republic of Germany and usually attended free programmes in industry without such training being directly connected to the activities abroad of the company concerned.

The Zentralstelle für Gewerbliche Berufsförderung (Central Agency for Commercial Vocational Training) in Mannheim also educates young trainers from the developing countries in close co-operation with German industry, who upon return to their countries will themselves educate skilled workers, organize training courses, provide advisory assistance for the setting up of businesses or assist industry by other means. In the 25 years of its existence, this Central Agency has provided further

training to over 9,400 scholarship holders from countries in Africa, Asia and Latin America. The ideal partner for the Mannheim agency is not a major industrial corporation but small and medium-sized companies and handicraft businesses whose size is most likely to correspond to the situation in the developing countries. Of the 600 participants currently being trained under the auspices of the agency in Mannheim are 37 women. Over the last few years, the number of women has risen slightly. According to the Central Agency, one-third of the female participants later transfered to school administration and to the ministries of education in their home countries, in particular in Latin America, and devised and carried out new training courses often by themselves. In Guatemala, for example, a large number of female training professions (florists, hairdressers, seamstresses) was devised in the dual training system by a former Mannheim scholarship holder.

5. Conclusion

Of all the development co-operation provided by the Federal Republic of Germany, the promotion of business activities constitutes but one field, though one of increasing importance for most developing countries.

The willingness of individuals to achieve rises according to his or her ability to develop initiatives freely. This theory is proven by the relatively substantial economic success of other industrialized and developing countries with private enterprise or market economic systems. More and more countries of the Third World and of the eastern bloc are recognizing this as a reality and endeavouring to adapt their state planning structures accordingly. The Government of the Federal Republic of Germany as well as the government and private development agencies referred to above concur with this view in their highly varied activities to stress 'promotion of the private sector' more and more. German industry is also showing its willingness to help improve living standards and working conditions in the developing countries by the substantial financial and personnel assistance it provides.

Government and private organizations have developed a comprehensive and inventive range of instruments adapted to widely varying needs and regional particuliarities which promise these countries appropriate solutions to their major problems. Development co-operation aims primarily at the strengthening of the self-help potential in industry and in the population at large. It endeavours in particular to create favourable overall economic and material conditions, to bring about adequate qualifications for manpower and to set up service organizations for industry.

Economic growth and development do need impetus from government, but successful economic growth and development can only be attained if a number of favourable overall conditions exist, such as motivated businessmen in all the countries concerned, recognition of countries as full and equal partners, a stable political situation, structural adaptation processes in the developing countries and open markets in the industrialized countries for the products of the Third World, and an easing in the burden of debt.

Though there is no one solution for all the developing countries to the problems involved in the promotion of setting up businesses, the government and private organizations in the receiver countries hold the unanimous view that one recommendation should be followed more in practice: as much scope for private activity as possible, as much government participation as necessary.

(IN Press)

6. Important addresses

Bundesministerium für Wirtschaftliche Zusammenarbeit (BMZ)
[Federal Ministry for Economic Co-operation]
Karl-Marx-Straße 4-6
D-5300 Bonn 1

Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungländern (DEG)
[German Financing Company for Investment in the Developing Countries]
Belvederestraße 40
D-5000 Cologne 41

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
[German Society for Technical Co-operation]
Dag-Hammarskjöld-Weg 1
D-6236 Eschborn 1

Kreditanstalt für Wiederaufbau (KfW)
[Credit Institute for Reconstruction]
Palmengartenstraße 5-9
D-6000 Frankfurt/Main 1

Carl Duisberg Gesellschaft (CDG)
[Carl Duisberg Society]
Hohenstaufenring 30-32
D-5000 Cologne 1

Zentralverband des Deutschen Handwerks
[Federation of German Handicrafts]
Johanniterstraße 1
D-5300 Bonn 1

Handwerkskammer Rhein-Main
Hauptverwaltung Frankfurt
[Rhine-Main Chamber of Handicrafts, Central Office in Frankfurt]
Postfach 170353
D-6000 Frankfurt/Main 1

Handwerkskammer Aachen
[Aachen Chamber of Handicrafts]
Sandkaulbach 21
D-5100 Aachen

Otto-Benecke-Stiftung
[Otto Benecke Foundation]
Bonner Talweg 57
D-5300 Bonn 1

Senior Experten Service (SES)
[Senior Expert Service]
Adenauerallee 148
D-5300 Bonn 1

Deutsche Stiftung für Internationale Entwicklung (DSE)
[German Foundation for International Development]
Rauchstraße 25
D-1000 Berlin 30

Zentralstelle für Arbeitsvermittlung (ZAV)
[Central Employment Agency]
Feuerbachstraße 42-46
D-6000 Frankfurt/Main 1

Zentralstelle für Gewerbliche Berufsförderung (ZGB)
[Central Agency for Commercial Vocational Training]
Käthe-Kollwitz-Straße 15
D-6800 Mannheim 1

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